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Tab 92 E

NATO'S GOAL OF 3% INCREASE IN DEFENSE SPENDING

EXCISE

Statement of the Issue

Issue: Whether or not to continue to support the NATO goal of an annual 3% real increase in defense spending.

The 3% goal first appeared in the biennial NATO Ministerial Guidance approved in the spring of 1977 and effective for the years 1979-84. Ministerial Guidance, which serves as the political direction and basis for each six-year defense planning cycle, stated that:

> ". . . an annual increase in real terms (i.e., after full compensation for the inflationary impact of rising pay and price levels) should be aimed at by all member countries. This annual increase should be in the region of 3%, recognizing that for some individual countries:
>
> -- economic circumstances will affect what can be achieved;
>
> -- present force contributions may justify a higher level of increase."

While we knew then that a simple statistical measure would not necessarily lead to increased capabilities, everyone agreed that some common standard was necessary, especially in light of annual Soviet increases of 4-5%. The 3% goal was affirmed by the Heads of State and Government at the 1978 Washington Summit and repeated in the 1979 Ministerial Guidance for the years 1981-86. Though performance on the goal has been mixed (see attached), the Allies (excluding the US) have achieved an overall weighted annual growth rate of around 2.5% in 1979 and 1.9% in 1980.

Time Constraint

Development of the 1981 Ministerial Guidance will begin in January for approval at the spring DPC Ministerial. The US normally provides the NATO International Staff with an early draft version of Ministerial Guidance or, at the least, an outline of items we would like to see included. In addition, Allies are currently considering national spending programs for 1981, and strong US interest and encouragement will be required.

What We Are Doing and Why

One reason for the mixed performance by the Allies is the economic situation in Europe and the heavy demands of popular social programs on ever-tightening government budgets. Moreover, although most Europeans share our concern about the challenge to

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our common vital interests in Southwest Asia; they tend to look for political solutions as an alternative to countering Soviet military power directly.

The fact that the US is planning increases in defense spending well beyond 3% -- despite our own economic problems -- will serve to dramatize to the American public and Congress that the Allies are not carrying their share of a growing defense burden.

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